Tug of War Between Energy Transition, Growing Energy Needs

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Highlight: Pickering Energy Partners President Walker Moody took aim at a list of misconceptions— or “dumb things” as he puts it—that the public believes about the energy industry.

Body

MIDLAND, Texas — Pickering Energy Partners President Walker Moody has a list of misconceptions, or as he prefers to call it, “dumb things” about where people think energy is headed.

Just because the energy transition isn’t rapidly putting conventional energy out of business doesn’t mean the transition will never happen. The industry just needs to get real about it, Moody said, speaking at Hart Energy’s 2023 Executive Oil Conference and Exhibition on Nov. 15.

“‘The world can use less energy in the future.’ No way. The AI models in Bitcoin and whatever the hell comes next is going to consume a lot,” Moody said. “‘Coal is evil and also dead.’ Not true ... You need a cheap, reliable source of fuel. ‘Alternative energy can power the world now’—not yet.”

The energy story so far, as others have noted, is that energy sources don’t just disappear when something else comes along.

The world’s primary sources of energy have moved from horses to coal to oil and gas. The energy sector is evolving yet again with more emphasis on clean energy. But Moody said there’s a stumbling block: The world’s growing energy needs mean a lot of energy transition goals are unrealistic, at least for now.

For example, in Europe last year, the EU reclassified natural gas as a green investment in the face of last year’s Russia-induced energy crisis. Not everyone was on board, with environmentalist groups, politicians and others seeing the fuel source as unacceptable.

As an investment strategy, Moody said Pickering Energy Partners’ view is that natural gas has a good “medium to long-term thesis.” Right now, he said, global coal consumption is at an all-time high, 30% of the world uses wood to heat homes, and the Bitcoin takeover in the U.S. means the 12 mines operating in the country consume enough energy to power 1.5 million homes.

And the reality is setting in that traditional sources of energy are not going anywhere anytime soon. Natural gas will be needed to bridge any other future energy source, especially as oil prices remain volatile, Moody said.

Both the conflicts in Ukraine and the Middle East are contributing to skittish markets, shaky prices and global energy security destabilization, Moody said. And after a hiatus, OPEC has pushed U.S. shale producers out of the swing barrel position to become the boss, he said.

Pickering Energy Partners’ take: oil will be around $80/bbl through 2027, Moody said. “That view is predicated on the fact that the world is not ending or burning.”

But, $80/bbl does not get the returns it used to, he said. Costs are up and returns at the well level are closer to 30% compared to 2021's 80% yields as the world emerged from the pandemic.

"Oil is our favorite commodity, but we do believe that there will be a peak at some point," Moody said. "This decarbonization global phenomenon has momentum, oil has a long runway, but we will eventually use less."

Conventional energy will definitely be an energy transition player until energy transition projects are able to fulfill the global demand for power, Moody said, so traditional energy projects are not un-investable.

Moody also cautioned against jumping quickly into being a "first mover" in the energy transition.

"What many investors and customers and companies forgot is that we are in a cyclical business," Moody said. "The oil and gas folks are very familiar with that. I lived in Midland in the eighties. The energy transition world is not—they thought the chart was only up and to the right, and you are seeing the repercussions of that."

Graphic

energy needes versus energy transition tug of war

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